Ameren Illinois Utilities

300 Liberty Street
Peoria, IL 61602

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Mr. Mark J. Pruitt
Illinois Power Agency
James R. Thompson Center, Suite 3-355
100 West Randolph Street
Chicago, Illinois 60601

The Ameren Illinois Comments to the Illinois Power Agency's Procurement Plan

Pursuant to Section 16-111.5(d) (2) of the Public Utilities Act, the Ameren Illinois Utilities (AIUs) respectfully submit comments to the proposed Procurement Plan submitted to the Illinois Commerce Commission (ICC or Commission) on August 16, 2010. The AIUs compliment the Illinois Power Agency (IPA) on the successful completion of the procurement events completed in the spring of 2010 and wish them success on the upcoming long term renewable solicitation. Furthermore, in reference to the proposed Procurement Plan for the period June 2011 through May 2016, the AIUs generally support the concepts imbedded in the Procurement Plan as submitted by the IPA, but offer the following comments in order to strengthen the proposal and prepare it for implementation.

The AIUs comments are enclosed in a redline version of the proposed Procurement Plan and are intended to correct certain mathematical errors and/or highlight areas of the plan that, in the opinion of the AIUs, need additional clarification.

Highlights of the comments are provided below:

1) On pages 3, 17 and 33 of the proposed plan, the IPA proposes optional procurement events up to an additional 10% of projected portfolio requirements in any month covered by the final plan that is below the 100% subscription level. The AIUs recognize the IPAs proposal of optional procurement events stems from a desire to minimize customer cost and volatility by pursuing transactions at times when market prices are perceived to be attractive. The AIUs recommend that any approved optional procurement events have a pre-defined set of parameters that rule these events and that such parameters be included in the approved IPA procurement plan. This will avoid any confusion as to the circumstances under which the IPA can pursue optional procurement events and the associated term and quantity of products to be pursued. The IPA is currently hedging 100% of the monthly average on peak and off peak energy required in year 1, 70% in year 2, 35% in year 3 and 0% in years 4 and 5. Since the IPA desires to pursue an additional 10% of projected portfolio requirements in any month covered by the final plan that is below the 100% subscription level, the AIUs recommend the following "cap" be included in the final plan.

100% Year 1
80% Year 2
45% Year 3
0% Year 4
0% Year 5

In addition, the AIUs recommend that the IPA be authorized to pursue an optional procurement event subject to the following conditions. First, the IPA should be authorized to pursue an optional procurement event only when the expected price of each monthly on peak or off peak block will be at least 10% below the weighted average price of existing hedges for the corresponding monthly on peak or off peak block. Second, such hedges should be expected to yield a price lower than the price paid in the most recent IPA procurement event.

Finally, the AIUs recommend that the final plan clarify that optional procurement events apply to energy only and are not applicable to capacity or renewable purchases.

2) On pages 4, 28 and 32 of the proposed plan, the IPA proposes that "energy efficiency from existing energy efficiency portfolio standards programs administered by the utilities be treated as an energy supply resource. Price(s) for the products would be negotiated after the closing of the spring 2011 solicitations for the more traditional physical and financial swap products". The AIUs submit that numerous questions will need to be addressed prior to the implementation of this portion of the proposed plan. Some of the issues that need to be addressed are as follows:

- How much supply is being considered and for what term?
- By what criteria will it be determined that energy efficiency is cheaper than energy hedges? Cheaper than the average portfolio price? Cheaper than the purchases in the most recent IPA procurement?
- Current AIU energy efficiency programs are required to follow statutory, tariff and cost recovery provisions which are overseen by the ICC. What regulatory process would the IPA pursue to prevent conflict with and ensure compliance with existing provisions?
- How would the IPA ensure double counting does not occur? (i.e. the same energy efficiency programs should not be counted as both energy supply and statutory AIU program requirements)
- How would a resulting "transaction" be consummated and then approved for cost recovery purposes? (a contract between the AIUs and the AIUs is not a viable option)
- Would the cost of energy efficiency as an alternative to energy hedges be recovered through Rider PER with other power supply costs?
- Is the product as described a "standard wholesale product" as required by law?
- Does the proposal constitute a "competitive process" as required by law?

The AIUs do not take a position (either for or against) the concept of energy efficiency as supply until such time as the IPA has answered the above questions and fully defined the product. The AIUs have eliminated reference of the proposed concept in the attached redline until such time as the issues to be addressed have been resolved.

3) On page 28 of the proposed plan, the IPA discusses the use of financial swaps as a mechanism to hedge energy exposure. Financial swaps have been used in IPA procurement events for the last two years. The AIUs suggest the IPA consider that federal legislation regarding the regulation of derivatives has recently passed and is currently going through a rule making process. It is expected that such legislation will allow the CFTC to regulate derivatives (including financial swaps) and enforce position limits, margin requirements and reporting requirements. Such changes have the potential to increase costs for the AIUs, its suppliers and customers. The date of the final rule making is uncertain and it is unclear if final rules will exempt existing financial swap transactions via a "grandfather" clause. It is also uncertain whether the AIUs will be partially or completely exempt from the rule making outcome since the AIUs may be viewed as an end user and not a speculator. In light of the information currently available, the AIUs recommend the IPA replace financial swaps for the spring 2011 procurement event with those that settle physically within MISO. The AIUs have provided suggested language changes in the attached redline version of the plan that highlights these issues.

4) On page 34, the IPA discusses Ameren Capacity Resources. The AIUs suggest that the IPA consider that significant changes to the MISO resource adequacy construct are currently being discussed at MISO. In a September 2, 2010 presentation to the Supply Adequacy Working Group, the MISO laid out the enhancements that they are currently considering for Module E of their tariff. These enhancements include moving to a 3-5 year forward looking construct and shifting to annual or seasonal compliance rather than the current monthly compliance. The presentation also includes a timeline which shows opportunities for stakeholder input, MISO finalizing their proposal in mid-October, tariff changes being filed at FERC on December 8, 2010, and an effective date for the changes of June 1, 2012. Given the uncertainty around this process, it may not be possible to define the Capacity product required to comply with these future requirements until at least sometime after the December 8 filing and possibly not unit such time as FERC has issued its final order. With this in mind, the AIUs recommend that for the upcoming procurement cycle the IPA only procure the Capacity resources required to fully comply with the MISO resource adequacy requirements for the 2011 planning year which are currently known and certain and not attempt to procure resources for any future years in which the MISO requirements are uncertain at this time. A copy of the MISO presentation is attached to this submittal.

5) On page 25 of the proposed plan, the energy efficiency impacts included in the forecast should be changed in years 2014 and 2015 to reflect a correction to the values included in the AIU forecast. The corrections are included in the attached redline version of the plan. These same corrections should also be made in Attachment A.

6) On page 30 of the proposed plan, the title of the table should be changed from "Off-Peak" to "On-Peak".

7) On pages 37 and 38, the AIUs believe the IPA has provided incorrect values pertaining to the Renewable Portfolio Standard. The AIUs have provided corrections in the attached redline version of the draft plan. In addition, the ComEd header in Tables N and O should be replaced with Ameren.

8) On page 39 of the proposed plan, the AIUs propose an additional sentence in reference to RPS clarifying that the Illinois preference for renewable resources no longer applies after June 1, 2011.

9) Also on page 39 of the proposed plan, the AIUs correct the dates referenced in the Auction Revenue Rights section. The dates referenced should be applicable to 2010.

10) In Attachment D of the proposed plan, it appears the IPA has the incorrect quantity for January 2013 in the on peak table. The AIUs submit that the correct values should be 750 MW for the 2011 IPA Procurement (as opposed to 0 MW) and 650 MW for the 2012 IPA Procurement (as opposed to 400 MW).

In addition to the comments provided in this cover letter, the attached redline version of the draft plan may contain additional items not mentioned here.

The AIUs look forward to working with the IPA to finalize the development and implementation of the draft Procurement Plan. If you have any questions or would like to discuss any of the comments, please feel free to contact me at 314-554-2972 or email me at jblessing@ameren.com

Sincerely,

James C. Blessing
Manager – Power Supply Acquisition
Ameren Illinois Utilities

Cc: Rich McCartney – Ameren Illinois Utilities
Richard Zuraski – Illinois Commerce Commission Staff
Tom Kennedy – Illinois Commerce Commission Staff